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TODAY

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FROM THE REGIONS

THE SOUTHWEST

Texas Bankers Are Sanguine About Long-Term Prospects

By DAVID LAGESSE
Southwest Bureau

DALLAS — Texas banks probably will not earn solid profits for a year or two, but the sense of impending financial crisis has faded from the canyons of the state's urban centers.

Reduced are the chances that a Houston or Dallas bank could gain the notoriety of a modern-day run on the scale of a Continental Illinois.

Southwestern holding companies never held quite the exposure to overseas and uninsured depositors that tumbled Continental Illinois, yet the possibility of an overnight run lingered in the air for much of 1986.

Now, regulators are said to be actively seeking merger partners for several of the holding companies, but the most visible pressure is coming from creditor banks — not skittish depositors.

Already the big Texas banks appear

to be on more solid ground. Withdrawals have slowed with the return of oil prices from a summertime low of $10 per barrel to around $18 in January, and interstate banking prospects added cool relief to funding

Texas Banks: Page 20 ➳

'86 in Washington: Banking Industry Has Had Better Years in the Capital

By ROBERT M. GARSSON
Washington Bureau

'86 preview '87

A Series of Articles Looking Back and Ahead At Issues Facing the Financial Services Industry

WASHINGTON — On an otherwise peaceful October night last year during the American Bankers Association convention in San Francisco, the president of the Chase Manhattan Bank stood up to argue that his bank charter had become more trouble than it was worth.

The charter cost Chase more than $160 million a year in regulatory compliance, said Thomas Labrecque, the president and chief operating officer of the nation's third largest bank, and it gave back little in return.

"Right now, I can't do anything in consumer lending that GMAC [General Motors Acceptance Corp.] can't do," he said. "I can't have any more securities powers — in fact I have less — than [Goldman, Sachs & Co.]."

The upshot, he said, is that Chase will give up its charter — its franchise to operate as a bank — if Congress does not grant banks new powers and services within the next few years.

That's the kind of year it was for

Washington: Page 14 ➳

3 Big Banks Press Fed on Underwriting

Commercial Paper Limits Too Strict, Firms Argue

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — Pressing their case for new securities underwriting powers, three big New York banking firms told the Federal Reserve Board Tuesday that it erred last month in interpreting a key section of the Glass-Steagall Act.

The issue could prove crucial for the banks. In a ruling Dec. 24 that Bankers Trust New York Corp. could sell commercial paper for clients through an affiliate, the Fed set stringent limits on the size of the business.

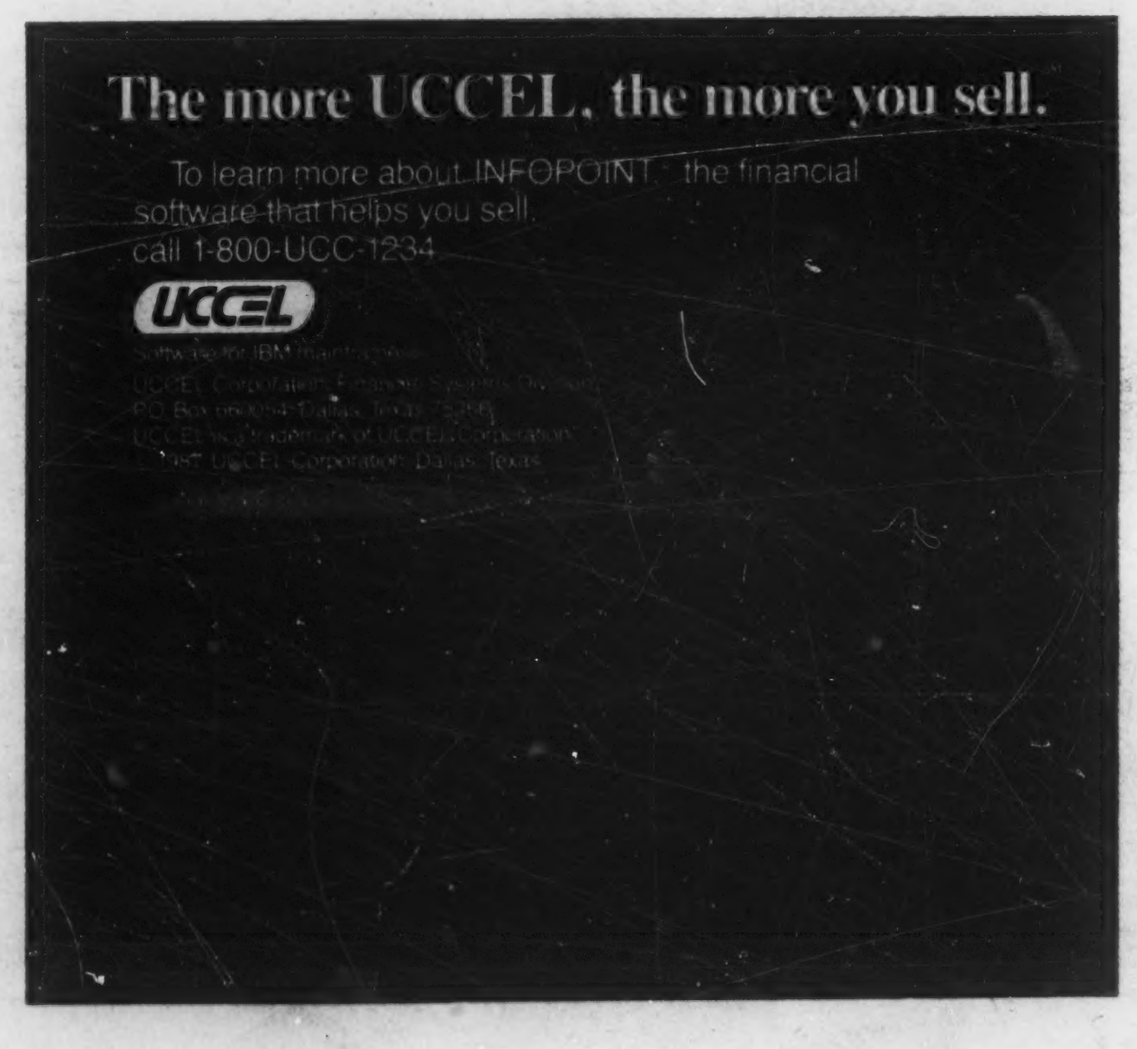
Although the central bank is widely expected to approve the securities underwriting applications from Bankers Trust, Citicorp, and J.P. Morgan & Co., last month's decision on commercial paper indicated the Fed might place similar limits on the size of that business.

The three banks want the Fed to permit them to underwrite commercial paper, mortgage-backed securities, municipal revenue bonds, and consumer-receivables through affiliates that also underwrite U.S. government securities.

Their remarks were made at a crowded open meeting in the Fed's board room here, called by the central bank to air the controversies surrounding the entry of banks into additional securities underwriting services.

Fed Chairman Paul A. Volcker said at the hearing that he believes Congress should rewrite the Glass-Steagall Act to permit certain types of bank securities underwriting. Mr. Volcker indicated that he has considerable doubt, however, about how far the law cur-

Underwriting: Page 23 ➳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Bank of America Tightening Operations in Asia

Despite Retail Profits, Bank Shifting Emphasis to Upscale Markets, Fee Income

By FRANCINE C. BREVETTI

The first of two parts

HONG KONG — Bank of America is dissolving or selling off some of its most profitable business in Asia in order to help the worldwide organization make up for its heavy losses.

The bank's parent, BankAmerica Corp., reported total losses for 1986 of $518 million, compared with losses of $337 million in 1985.

While its Asian business has been robust and growing, with a few exceptions, the organization here has completed a round of cuts in personnel, business units, and assets. At the same time, the emphasis of operations here is being shifted from small- and medium-size customers to an upscale market, and from traditional lending and loan syndication to fee-based income. Asia's Bank of America will emphasize capital markets, commercial and private banking, trade finance, foreign exchange, money market trading, and business with China.

It is also trying to edge out competition with vast investments in technology for its merchant banking, treasury management services, correspondent banking, and dealing room expansions.

Stephen B. Hunt, senior vice president and general manager for Bank of America's Hong Kong area, said he resents a common perception that the bank is sinking fast.

"I don't feel the bank is in a crisis," he said. "Frankly, the bank is making money here. We are committed to solving the earnings problems but there are parts that are still healthy." He said results in his area were up over last year, but did not provide specific figures.

Bank of America divides Asia into four areas: Mr. Hunt oversees Hong Kong, Taiwan, China, and India; Japan and South Korea are a single administrative unit; Australia, New Zealand, and New Guinea form another area; the Southeast Asia unit consists of Malaysia, Thailand, the Philippines, Singapore, Indonesia, and Brunei.

In 1986, Hong Kong slashed staff by 240, leaving 1,020 employees. There are no layoffs on the agenda for this year. Singapore laid off 200; Bangkok, 61; Manila, 110; Tokyo, 38; and Kuala Lumpur, 36. Sri Lankan operations were closed in 1986, and Guam's were shut down in 1985. Bank of America is considering moving out of another country.

The banking community in Hong Kong was rocked when Bank of America announced it would close eight of its 11 retail outlets, but many bankers here are feeling the pinch of rising staff and property costs. In 1985-86, several banks in Hong Kong closed branches, including the Hongkong & Shanghai Banking Corp., Standard Chartered PLC, the Bank of China, Barclays Bank PLC, and Banque Nationale de Paris.

Card-Issuing Operations to Go

According to Mr. Hunt, the institution has decided to sell off its Visa card-issuing operations in Hong Kong and Singapore. The consumer finance unit of the Hong Kong branch may also go. The retail branches, credit card, and consumer finance businesses are attractive to bankers in Hong Kong; they amount to Bank of America's "crown jewels," an executive of the bank said.

The sale of these operations is the result of a decision by the bank's San Francisco headquarters to withdraw from the foreign retail business. The bank also pulled all foreign-based economists home and some were laid off, including three who covered Asia.

The future of the Hong Kong public relations office is also uncertain. Half of Bank of America's Asian loan portfolio is concentrated in Japan and South Korea; about 30% in Southeast Asia, and the balance in the Hong Kong and Australian administrative regions. Richard K. Hoffman, senior vice president, special assets group-Asia, said most of the credit difficulties are in Indonesia, Singapore, Thailand, and Malaysia; problems emerged after a period of economic growth period in Asia from 1977 to 1983.

Asia's growth was so strong that it "led to the fantasy that it would last forever," Mr. Hoffman said. "I never suspected it would fall when it did and fall so fast." The bank reduced its Singapore portfolio by 25% to 28% in the past 16 months, especially among small- to medium-size accounts. It will remain there on a smaller, more selective basis.

Mr. Hoffman said Indonesia's portfolio was improving rapidly. Although the bank has been reducing its exposure in Malaysia over the past 18 months, he said he is uncertain about profitability in that country this year.

He also called Australia "overbanked." Bank of America has a "solid operation there," he said, "but we will never make a huge profit" because of competition from foreign banks. The bank has abandoned retail business there as well.

While most banks have had trouble in Taiwan, that island has always been a conspicuous success for the Bank of America. The bank is equally pleased with its operations in South Korea and India.

But Mr. Hoffman said he is concerned about the bank's decision to concentrate on upscale customers and certain fee-income specialities. "If we are that narrow in marketing, how large an organization can we support?" he said.

New Emphasis in China

The Hong Kong operation plans to pay more attention to its China business; it is beefing up staff here and in China. Bank of America is already one of the lenders on a coal slurry mine project, a joint venture with the Occidental Petroleum Corp. It is also a lender in the McDonnell Douglas Corp.'s joint venture to build aircraft in Shanghai. In addition, it is the largest seller of traveler's checks in China.

But rather than concentrating on its corporate customers with operations in China, Mr. Hunt wants to increase business with the growing Chinese banking network, where he sees new opportunities. The Bank of China is rapidly producing subsidiaries. The lending and project finance entity, China International Trust and Investment Corp., Beijing, already has clones in Shanghai and Canton.

Mr. Hunt wants to increase business with Chinese financial institutions in trade finance and correspondent banking services; payout services, account services for operating accounts in foreign exchange, foreign exchange trading, securitized debt transactions, joint venture financing, and short- and medium-term loan facilities for the client bank's own trade needs or for its customers.

The "China business" has been largely unprofitable for banks representing foreign corporations or pursuing Chinese banking business. Capital markets transactions have amounted to little more than spot business with the Bank of China. There have been well-publicized commercial paper issues with China International Trust, but the paper does not trade well.

Mr. Hunt said Bank of America has been profitable in China, but his counterparts in Hong Kong and abroad are skeptical about prospects for making anything but the thinnest margins.

Next: Merchant and investments in software products.

Third World and East Europe Owed $587 Billion To Western Banks at End of 1985, Study Shows

By M.S. MENDELSOHN

LONDON — More than half of the $1.15 trillion in foreign debt owed by 155 Third World and East European countries at the end of 1985 — some $587 billion —was unguaranteed debt owed to the Western banking system, according to the Organization for Economic Cooperation and Development.

The finding is published in a report, called "External Debt Statistics," that provides the most comprehensive picture of international debt yet attempted by any official organization.

It is drawn from the creditor statistics of the OECD and the Bank for International Settlements as well as the debtor statistics compiled by the World Bank and International Monetary Fund. The result is the first clear and complete breakdown of what developing countries owe and to whom they owe it.

The compilation of detailed data for 155 countries is an important breakthrough in the management of international debt, where poor reporting has often contributed to debt difficulties and then made their resolution more difficult. Debt renegotiations have often been impeded by ignorance on the part of debtor countries and their creditors, especially about debt owed to other creditors.

The latest data break down the debt owed by each of the 155 countries to the Paris Club and the London Club, to other government creditors, and to preferred creditors like the International Monetary Fund, the World Bank, and other multilateral development banks, whose claims are never rescheduled.

The Paris Club is the forum in which developing countries renegotiate debt owed to the governments and official export credit agencies of Western countries belonging to the OECD. The London Club is a forum in which countries renegotiate debt owed to commercial banks.

Debt owed to the Paris Club consists of overseas development assistance provided by OECD member governments and export credits guaranteed or insured by the export credit agencies of those industrialized countries. Debt owed to the London Club consists of liabilities to the western banking system other than officially guaranteed export credits. Debt owed to other creditors consists of loans and guaranteed or insured export credits provided by credi-

Debt: Page 19 ➡

Troubled Debtor Nations at Yearend 1985
(Figures in Billions)

	Due to Banks	To All Creditors	Due in '86
Brazil	$74.6	$104.6	$8.4
Mexico	75.3	94.4	7.5
Argentina	42.0	53.7	3.5
Venezuela	32.7	34.3	2.8
Egypt	6.9	31.2	1.6
Poland	6.6	29.7	1.5
Philippines	12.9	28.6	2.4
Chile	20.1	24.4	1.7
Yugoslavia	13.8	23.9	2.3
Nigeria	6.5	15.9	2.3
Top 10	$291.6	$440.7	$34.0
Peru	6.6	15.2	0.9
Morocco	4.0	14.9	0.8
Columbia	6.2	13.4	1.0
Ecuador	6.1	9.2	0.7
Ivory Coast	2.9	7.2	0.6
30 Other Nations	21.3	84.0	5.3
45 Debtors	**$338.7**	**$584.6**	**$43.3**

Note: Repayments due in 1986 refers only to principal repayments that were due on medium and long-term debt and excludes interest service.

Source: "External Debt Statistics," produced by the Organization for Economic Cooperation and Development.

Debt Outstanding at Yearend 1985
(Figures in Billions)

	Aid	Export Credits	Banks	IMF/IBRD	Other	Totals	Due 1986
Developing Countries	$75	$181	$546	$141	$111	$1,054	$71
Eastern Europe	-	$37	$41	$4	$15	$97	$11

Note: Repayments due in 1986 refers only to principal repayments that were due on medium and long-term debt and excludes interest service.

First Federal Got $358.5 Million in FSLIC Aid

Continued from Page 3

terest rate spread problems.

"It's pretty much in line with the cost to resolve these types of institutions," Mr. Vigna said.

Several industry observers said the Bank Board has little choice about giving out assistance if it wants to get these problem institutions off its hands.

"I'm hard up to think of another way that FSLIC could have done this thing," said Paul A. Willax, the president and chief executive officer of Empire of America FSB, Buffalo.

"It's willing to pay what it has to pay to resolve the larger cases," said Thomas P. Vartanian, a thrift attorney with Fried, Frank, Harris, Shriver and Jacobson. "I think they feel it's worth it to get that monkey off their back."

"In 1981, 1982, it would not have been unusual to give out sums of money like that several times a year in large assistance deals," said Mr. Vartanian, who was the Bank Board's general counsel during that period.

The problems of First Federal and Talman were caused mainly by interest rate mismatches, but the FSLIC may have to pay similar assistance packages to resolve more recent problem cases.

"Certainly, the phoenix thrifts represented some of the most severe remaining problems from the 1981-to-1984 interest rate crunch era," said Michael L. Ryan, an attorney with Cleary, Gottlieb, Steen & Hamilton. "But there are problems from the 1985-to-1986 asset-quality era on the Bank Board's plate now that may rival First Federal of Rochester in magnitude."

Mr. Vigna, however, says that First Federal is a special case. "I would think it would be unusual, because it's in the phoenix program," he said.

First Federal was one of five thrifts created by the Bank Board's phoenix program in 1981 and 1982. In that program, two or more troubled institutions were merged into a larger thrift that operated under tight control by the Bank Board.

First Federal was created in 1981 by the merger of First Federal and the Franklin Society Federal Savings and Loan Association, New York. Three other New York City thrifts were merged into the institution in 1982.

"When you're looking at First Federal of Rochester, you're not looking at one problem — you're looking at several that were merged into one," said Bank Board spokeswoman Martha Gravlee in defending the large assistance package.

Mr. Vigna said that it would have cost the FSLIC anywhere from $1 billion to $1.25 billion to resolve those cases separately.

Last August, the Bank Board announced that it was removing First Federal from the phoenix program and putting control of the institution into the hands of its current board of directors and management. The Bank Board said it approved a recapitalization plan for the thrift, but it did not announce the size of the assistance.

A comparison of First Federal's third-quarter and second-quarter data, however, reveals the level of FSLIC aid. As of March 31, First Federal had no reserves and had $141 million worth of income capital certificates and $17.5 million worth of net worth certificates outstanding. By Sept. 30, the $158.5 million worth of certificates were gone from the balance sheet and the institution had $358.5 million in reserves, indicating that the FSLIC cash infusion totaled $200 million.

The income capital and net worth certificates are effectively loans to a thrift's net worth by the FSLIC that are supposed to be repaid when an institution returns to financial health. The income capital certificates are supposed to be repaid with interest. So by forgiving the certificates, the FSLIC's total aid package for First Federal was $358.5 million, not counting interest that would have been paid on the income capital certificates.

First Federal's total net worth as of Sept. 30 was a strong $263.5 million, even with a negative $95 million on the balance sheet from previous losses incurred by the institution. Its net worth to assets ratio was 5.7%.

First Federal has no current plans to convert from mutual to stock form of ownership, and has no other capital-raising plans in the works, according to Robert E. Nolan, the director of public relations for the thrift. Shortly after Talman left the phoenix program, it converted to stock form with an $81 million public offering.

The Bank Board data shows that First Federal lost $1.7 million in the third quarter after posting a $1.9 million profit in the second quarter. But the institution was able to turn around in the fourth quarter, its first full quarter after the recapitalization. Although the quarterly figures are not yet available, Mr. Nolan said that First Federal posted a $13.8 million profit for the full year.

When First Federal was formed in 1981 as the first phoenix thrift, some New York thrift executives were upset that the Bank Board was creating a large thrift that would compete with them.

But at least one of those critics is supportive of the Bank Board's recapitalization of First Federal. "They probably considered it the best alternative," said George L. Engelke Jr., executive vice president of the Astoria Federal Savings & Loan Association, Astoria, Queens, N.Y. "Somewhere along the line, some kind of assistance was going to have to be given."

Mr. Engelke said that the Bank Board's assistance indicates support for First Federal's current management team, which was put in place after the institution entered the phoenix program.

Mr. Willax of Empire of America FSB did disagree with one aspect of the assistance package for First Federal: the forgiveness of the income capital certificates. When Empire converted from mutual to stock form last November, it had to convert $67.9 million in income capital certificates to adjustable-rate cumulative preferred stock held by the FSLIC. Empire has to pay a market interest rate on that preferred stock.

"I wish we could establish a more formal way of helping thrifts that need help," rather than helping them on a case-by-case basis as the Bank Board operates now, Mr. Willax said. "There must be some kind of quantitative formula." ■

The Markets

Money Market

Tuesday, February 3, 1987

Federal funds range 6.00%-6 3/16%
Prime rate (8/27/86) 7½%
Discount rate FRB of New York (8/21/226) 5½%
Call Loans on Securities:
To brokers on stock exchange collateral 7.25%

Bankers Accepts. offering rate—discount basis (2/3/87)

30 days—5.93	60 days—5.90	90 days—5.83
120 days—5.80	180 days—5.77	

N.Y. City Banks' CDs — Highest Offering Rate (2/3/87)

14 days—5.50	30 days—5.65	60 days—5.65
90 days—5.70	120 days—5.55	150 days—5.55
180 days—5.55	270 days—5.55	360 days—5.65

Aaa Dealer Comm'l Paper—discount basis (2/3/87)

30 days—6.00	60 days—5.95	90 days—5.90

Comm'l Paper Directly Placed—Range disc. Basis (2/3/87)

5-14 days—5.00-6.00	15-29 days—5.00-5.95
30-59 days—5.00-5.90	60-89 days—5.00-5.90
90-179 days—5.00-5.80	180-270 days—5.00-5.75

Eurodollar Deposits—London bid (2/3/87)

Overnight—6⅛	7 days—6 1/16
1 mo.—6⅛	3 mos.—6 3/16
6 mos.—6 3/16	1 year—6 3/16

NIBOR (6-month) ..... N.A.
LIBOR (6-month) ..... N.A.

Futures Markets

The Bond Buyer Municipal Bond Index

	Feb. 3, 1987	Feb. 2, 1986	Jan. 27, 1987
Index	102.00	102.03	102.05
Yield	7.05	7.04	7.08

The Bond Buyer Municipal Bond Index was designed by the Chicago Board of Trade to serve as the basis for trading Long-Term Municipal Bond futures contracts when approved by the Commodity Futures Trading Commission. The Index represents an average of the figures obtained when the price of each of 40 select term bonds is divided by a figure derived from the amount at which the bond would be priced to yield 8%. In all computations, the maturity of a bond is represented by its first call at par. The Index is computed daily and is quoted in points and 32nds.

3-Month Domestic CD Futures (IMM)*

Delivery Month	High	Low	Settle	Change (a)	Yield(b)
Mar. '87.	.....	.....	94.10	unch	5.90
Sept '87.	.....	.....	94.11	+ 1	5.89

As of the previous day's close; Total no. of contracts traded: 0 total open interest: 19 and change in open interest: unch.

3-Month T-Bill Futures (IMM)**

Delivery Month	High	Low	Settle	Change (a)	Yield(b)
Mar. '87.	94.52	94.46	94.50	+ 1	5.50
June '87	94.61	94.56	94.58	unch	5.42
Sept.'87.	94.61	94.56	94.58	- 1	5.42
Dec. '87.	94.53	94.49	94.49	- 2	5.51
Mar. '88.	94.38	94.35	94.35	- 1	5.65
June '88	94.18	94.14	94.14	- 2	5.86
Sept.'88.	93.95	93.92	93.90	- 2	6.10
Dec. '88.	.....	.....	93.69	- 3	6.31

As of the previous day's close; Total no. of contracts traded: 6,997; total open interest: 46,912 and change in open interest: + 784

American Banker Index

Selected Money Center Bank Stocks*

		High	Low	Last
Feb. 3...356.9	1987	369.9	331.8	356.9
Feb. 2...357.6	1986	388.7	311.2	331.3
Jan. 30...357.9	1985	344.2	242.7	344.2
Jan. 29...360.5	1984	269.6	178.4	246.3
Jan. 28...357.5	1983	299.6	223.1	260.2

* Based on midday prices.

Gold Coins

Coin Name & Weight	$ Value per Coin Feb. 3	Feb. 2
U.S. Eagle (1 Troy oz.)	422.50	430.50
Krugerrand (1 Troy oz.)	404.00	412.00
Canada Maple Leaf (1 Troy oz.)	418.00	425.00
Mexico Onza (1 Troy oz.)	408.00	416.00
China Panda (1 Troy oz.)	424.00	436.00
U.S. Eagle (.50 Troy oz.)	217.50	221.50

These quotes represent the N.Y fixing price, which are a midprice between what buyers are bidding and sellers are asking. The prices are quoted by Manfra Tordella & Brookes.

Debt . . .

Continued from Page 2

tor countries not belonging to the OECD.

The Paris and London clubs have long insisted on burden-sharing with all creditors other than multilateral institutions. The data on debt of different countries could provide a guide to equitable such burden-sharing.

The report shows that:

- Although 45 Third World and East European countries have run into debt difficulties since 1980, another 110 countries are continuing to service in full foreign debts totaling $566 billion, including $250 billion owed to Western banks.
- The 45 countries that have run into difficulties since 1980 owe $585 billion to foreign creditors, including about $340 billion to banks. Between them, these troubled debtor were due to make principal repayments of more than $43 billion in 1986. The study did not supply the amount of interest payments they were due to make. However, informed guesses are that those amounted to about $35 billion, which would have made the total debt service due from those countries almost $90 billion last year, and probably a similar amount this year.
- Of the total owed in 1985 by the 155 countries, 25% was to the Paris Club for aid and export credits; 51% to banks; 11% to creditors outside the Paris and London clubs; and 13% to preferred creditors such as the IMF and World Bank.
- The $587 billion owed at the end of 1985 by all 155 Third World and East European countries amounts to about 20% of international bank lending, and the $340 billion owed by 45 troubled debtor countries amounts to about 11% of international bank lending. ■

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